

Special Joint Meeting with Asheboro City Council

August 12, 2008

At 6:30 p.m., the Randolph County Board of Commissioners met in a special joint meeting with the Asheboro City Council in the Commissioners Meeting Room of the County Office Building, 725 McDowell Road. Commissioners Holmes, Frye, Haywood, Kemp and Lanier were present, as well as County Manager Richard Wells; Darren Allen, Interim County Attorney; Aimee Scotton, Associate County Attorney; Cheryl Ivey, Clerk to the Board; and Amanda Varner, Deputy Clerk to the Board. Asheboro City Council members Talmadge Baker, Eddie Burks, Linda Carter, Keith Crisco, Walker Moffitt, Archie "Mack" Priest, Mayor David Jarrell and Mayor Pro Tem - David Smith were present, as well as John Ogburn, City Manager; Jeff Sugg, City Attorney and Holly Doerr, City Clerk. Randolph County Economic Development Corporation was represented by Bonnie Renfro and Harry Lane. Kennametal Inc. was represented by Earl Leonard, Asheboro Plant Manager and Bob Myers, Director, North American Metalworking Manufacturing.

Call to Order

Chairman Holmes called the meeting to order and welcomed everyone. Mayor Jarrell called the meeting to order for the City and thanked Kennametal for their hospitality when they entertained the Asheboro group in Latrobe, Pennsylvania a few weeks ago.

Public Hearing

At 6:33 p.m., Chairman Holmes opened the public hearing on behalf of the County. Mayor Jarrell opened the public hearing for the City.

Bonnie Renfro, EDC President, said that Kennametal is a publicly traded company headquartered in Latrobe, Pennsylvania, and is a leading global supplier of tooling, engineered components, and advanced materials. Kennametal was founded in 1938 and today employs more than 14,000 in operations located around the world. They are the market leader in North America in metal cutting tools and second in Europe. Kennametal has a production facility in Asheboro that produces carbide cutting bits and drills. Today they employ 175 workers in Asheboro with annual payroll in excess of \$6 million. The Asheboro production facility has a well-established reputation for quality product, customer service and dedicated workforce. In 1998, Kennametal acquired Greenfield Industries including its Asheboro production facility. The merger created one of the world's largest tungsten carbide and high speed tooling companies. The Asheboro operation was initially established in the early 1980's as Cleveland Twist Drill and is located in northern Asheboro. The Asheboro operation is under consideration for an expansion that would add a new product line of very specialized, high tech carbide cutting tools. Kennametal operates in a fiercely competitive business, both domestically and internationally. The company has a strategic commitment to drive innovation, with 47% of sales from products less than 5 years old. Their commitment to innovation is used to drive customer productivity savings and create and maintain a competitive advantage. The Asheboro operation has produced a commodity product that is being relocated, meaning that the plant will be underutilized. That creates risk for the existing jobs and production over time.

The expansion opportunity that is being considered would retain the existing 175 jobs and create 70 new jobs. It would position the Asheboro operation for a high skill, highly complex product line aligned with the company's strategic plan for growth and innovation. This expansion would include an investment of \$20,000,000 in personal property in three phases as well as the creation of 70 new jobs by 2009. The jobs would pay an average of \$35,263, a quality wage over the average county wage of \$30,160. These jobs would be very welcome given the number of layoffs affecting our citizens and uncertainties in our county's employers.

For this project, the company is considering its various facilities around the globe. The company is seeking the location with the best workforce, geographic presence, and most cost effective delivered product. In today's highly competitive marketplace, the company is seeking all available assistance from local and state governments to help offset costs associated with the project and has stated that economic incentives are key to their decision to move forward with the project. All of the economics of the project, including incentives, must work for the project to proceed.

Ms. Renfro asked the two Boards for consideration of the following:

1. That the City of Asheboro and the County of Randolph authorize all appropriate resolutions and document preparation to enter into an economic development incentives contract with Kennametal, as permitted by North Carolina General Statute Section 158-7.1
2. The County of Randolph and the City of Asheboro provide to Kennametal, a total of \$370,000 to assist the company with costs associated with the expansion project.
3. We propose that the City of Asheboro provide a total of \$185,000 and the County of Randolph provide a total of \$185,000, sharing equally in the funding assistance.
4. The funding will be paid in no less than three annual installments in approximately equal amounts contingent on the company's satisfaction of specific performance requirements for investment and job creation. Those requirements would be formalized in an economic incentives agreement.
5. The Company must deliver to the County and the City written certification that the actual value of new investment in personal property of the project equals or exceeds the sum of \$20,000,000, such investment occurring by the end of 2012.
6. The Company must deliver to the City and the County reports evidencing the creation of a minimum of 70 new permanent jobs at an average weekly wage that meets or exceeds \$678.13. Jobs would be created over the first two years of the project.
7. The company would agree to remain in operation in Asheboro for a period of four years immediately following the date of the final installment of the incentive payment. If the company does not remain in full operation, a portion of the incentive money must be returned to the City and County.

Ms. Renfro said that based on the current City and County tax rate, and the company's planned investment of \$20,000,000, the City of Asheboro and the County of Randolph can expect new tax revenues in excess of this incentive over the next three years. Equally important, the expansion of Kennametal will create 70 quality jobs for residents, adding more than \$2.4 million annually in new payroll dollars to our community. These quality jobs pay above 110% of our average county wage and offer excellent benefits. This project would also retain 175 current jobs and more than \$6 million in annual wages for our people. Industry standards show that every new job in metalworking results in the creation of 1.8 additional jobs. Using a conservative measure, the project would indirectly support 196 additional jobs in our local economy and \$2.56 million in indirect income dollars. The "indirect" employment, or "spin off" employment, of the total project, including the retention and expansion employment, would be 442 jobs attributed to the total project. Kennametal also meet an important goal of

economic development: the diversification of our economic base. Metalworking is a key target sector for Asheboro and Randolph County. The Randolph County EDC sees this request as an investment, rather than an expense. She thanked the two boards for their support of this project and for existing industry in Randolph County.

Lynn Lancaster, 1814 Coxemoor Place, Asheboro, asked why the company's commitment was for only four years.

Ms. Renfro said that it is a seven-year commitment, but the payments would be over three years.

Mr. Lancaster asked why the incentive was a 50-50 split between the County and City.

Ms. Renfro said that incentive packages for these types of projects had traditionally been shared equally between the participating local governments.

Mr. Lancaster asked what the internal rate of return would be.

Ms. Renfro said that it would be based on new tax revenues that would be generated. Council member Keith Crisco added that it would be also be based on a positive cash flow and net present value.

Mr. Lancaster asked what the benefits would be to the City and County.

Commissioner Frye said that there would be positive cash flow every year to both City and County, as well as the retention of an existing industry and jobs and the creation of 70 more jobs within two years.

Mr. Lancaster voiced his objection to secret (closed session) meetings on economic development projects.

Commissioner Frye said that the Boards knew very few details of the project before the meeting this night.

James Nance, 1231 Oakwood Ac. Rd., Asheboro, asked why the taxpayers don't have the opportunity to vote on projects like this.

Commissioner Haywood said that the taxpayers have the opportunity to vote every two years for their elected representatives (City and County).

Commissioner Kemp said that we knew we were one of several locations being considered by the company, but we didn't know until recently that Kennametal had chosen Asheboro for its expansion.

Councilman Walker Moffitt said that if Kennametal had not accepted our incentives package offer, the company would have left Asheboro.

Mr. Lancaster asked if the County and City are paying the company to stay or to grow.

Both boards responded by saying, "both."

Mr. Lancaster said that the EDC didn't have a good track record with their projects.

Ms. Renfro said that they did have a good track record and added that all their packages are performance based; no payment is made until certain criteria have been satisfactorily met.

Commissioner Frye added that there have been many projects in the past that the Board had voted not to do.

There being no further comments, Mayor Jarrell closed the public hearing for the City. Chairman Holmes closed the public hearing for the County.

Action on Requests

On motion of Haywood, seconded by Frye, the Board voted unanimously to approve a resolution, which follows, and to authorize County legal staff to draft a contract between the County, City of Asheboro and Kennametal, Inc., and to authorize the Chairman to sign the contract:

RESOLUTION AUTHORIZING THE COUNTY OF RANDOLPH TO ENTER INTO AN ECONOMIC DEVELOPMENT INCENTIVES CONTRACT

WHEREAS, Section 158-7.1 of the North Carolina General Statutes authorizes a county to undertake an economic development project by extending assistance to a company in order to cause the company to locate or expand its operations within the county; and

WHEREAS, the Board of Commissioners of Randolph County has held a public hearing to consider whether to participate in an economic development project that will result in the County of Randolph (the "County"), the City of Asheboro (the "City"), and Kennametal, Incorporated (the "Company") approving an economic development incentives package whereby the County and the City each contribute up to one hundred eighty-five thousand dollars (\$185,000.00) for a total payment of up to three hundred seventy thousand dollars (\$370,000.00) to the Company to offset the costs of the Company's expansion in the City of Asheboro, Randolph County, North Carolina, said incentives to be granted pursuant to an economic development incentives contract entered into pursuant to Section 2 of this resolution; and

WHEREAS, upon the completion by the Company of this expansion project, the Company will have generated new value/investment in personal property associated with the project in an amount equal to or in excess of twenty million dollars (\$20,000,000.00) and created a minimum of seventy (70) new jobs in the County and City; and

WHEREAS, this economic development project will stimulate and stabilize the local economy, promote business in the County and City, and result in the creation of a significant number of jobs in the County and City; and

WHEREAS, the County has in its General Fund available revenues sufficient to fund this economic development project;

NOW, THEREFORE, BE IT RESOLVED by the Board of Commissioners of Randolph County, this 12th day of August, 2008, as follows:

Section 1. The County is authorized to expend up to one hundred eighty-five thousand dollars (\$185,000.00) of County funds for the Kennametal economic development project.

Section 2. In addition to the standard terms found in contracts that the County routinely executes in the ordinary course of business, the economic development incentives contract entered into by and between the County, the City, and the Company must contain the following essential terms and conditions:

- a. The total payment made to the "Company" under this contract shall not exceed three-hundred seventy thousand dollars (\$370,000.00).
- b. Fifty-percent of the contract amount will be paid by the County, and the other fifty-percent of the contract amount will be paid by the City.
- c. The contract amount will be paid in three (3) installments in amounts as detailed below at a frequency not to exceed one installment per fiscal year (July 1-June 30). The initial installment payment shall be

made no sooner than July 1, 2009, and the final installment payment shall not be made later than December 31, 2012. The obligation of the County to make any installment payments specified herein shall be conditioned upon the satisfactory completion by the Company of certain performance requirements, including but not limited to, the following:

- i. The Company must deliver to the County and the City written certification that the actual value of new investment by the Company in personal property in connection with this project equals or exceeds fifteen million and no/100 dollars (\$15,000,000.00). The written certification of the actual value of the new investment shall further certify that said new investment is located within the corporate limits of the City of Asheboro. Additionally, the Company must provide Employment Security Reports to the County and the City evidencing the creation of seventy (70) new full-time jobs having an average weekly wage that meets or exceeds six hundred seventy-eight and 13/100 dollars (\$678.13). Upon receipt of said certifications, the County and the City shall remit a total payment of one hundred twenty-two thousand and no/100 dollars (\$122,000.00), fifty-percent to be paid by the County and fifty-percent to be paid by the City; and*
 - ii. The Company must deliver to the County and the City written certification that the actual cumulative value of the new investment by the Company in personal property in connection with this project equals or exceeds seventeen million and no/100 dollars (\$17,000,000.00). This written certification of the actual cumulative value of the new investment shall further certify that said new investment is located within the corporate limits of the City of Asheboro. Additionally, the Company must deliver to the County and the City written certification that the Company has not reduced its level of operations in the County and the City since the date of payment by the County and the City of the immediately preceding installment payment. By way of illustration and without limitation, the Company shall be deemed to have reduced its level of operations in the County and the City if the Company fails to maintain the entirety of newly created jobs referenced in Paragraph (i) above.. Upon receipt of the required certifications, the County and the City shall remit a total payment of one hundred twenty-two thousand and no/100 dollars (\$122,000.00), fifty-percent to be paid by the County and fifty-percent to be paid by the City; and*
 - iii. The Company must deliver to the County and the City written certification that the actual cumulative value of the new investment by the Company in personal property in connection with this project equals or exceeds twenty million and no/100 dollars (\$20,000,000.00). This written certification of the actual cumulative value of the new investment shall further certify that said new investment is located within the corporate limits of the City of Asheboro. Additionally, the Company must deliver to the County and the City written certification that the Company has not reduced its level of operations in the County and the City since the date of payment by the County and the City of the installment payment referenced in Paragraph (ii) above. Upon receipt of the required certification, the County and the City shall remit a total payment of one hundred twenty-six thousand and no/100 dollars (\$126,000.00), fifty-percent to be paid by the County and fifty-percent to be paid by the City.*
- d. The contract must provide the County and the City with a means of recouping a portion of the contract amount if the Company's facility, as expanded, does not remain in full operation, maintaining the newly created jobs referenced above, for a period of four (4) years immediately following the date on which the final installment of the contract amount is paid to the Company.*
 - e. If the Company does not remain in full operation during this four (4) year period, a portion of the incentive money must be returned. The amount to be returned shall decrease on a pro-rated amount for each year that the company remains in the City and County. Any amounts returned by the company in this manner shall be divided equally between the County and the City.*

Section 3. *The Chairman of the Randolph County Board of Commissioners is hereby authorized to execute on behalf of the County of Randolph a contract drafted in accordance with Section 2 of this resolution and any other documents necessary for the implementation of this economic development project.*

The Asheboro City Council also voted unanimously to approve the incentives package to Kennametal, Inc.

Adjournment

At 6:53 p.m., there being no further business, both Boards adjourned.

J. Harold Holmes, Chairman

Darrell L. Frye

Phil Kemp

Stan Haywood

Arnold Lanier

Cheryl A. Ivey, Clerk to the Board